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SUBJECT: IMF TAKES STAND ON ROGHUN; SOME SAY NOT STRONG ENOUGH

REF: A. 09 DUSHANBE 1443

[B](#). DUSHANBE 52

[C](#). DUSHANBE 67

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[1](#). (SBU) Summary: An IMF team recently completed a two-week visit to Dushanbe to assess economic and government performance before releasing further funding under its Extended Credit Facility (ECF). A central issue was the government's campaign to fund the Roghun hydroelectric dam. The IMF outlined three main concerns about Roghun: (1) there is no clear plan in place to manage and use the funds it has raised -- over \$160 million so far. (2) The funds are raised in somoni, but the bulk of the spending on Roghun will have to be in foreign exchange. (3) The Roghun campaign is causing a modest but real increase in poverty and decline in economic growth. IMF team leader Axel Schimmelpfennig acknowledged concerns that the government continues to force its citizens to contribute to Roghun. He said it was not the IMF's role to question Roghun on human rights grounds, but he urged the government to halt on economic grounds: Tajikistan already has raised more somoni than it needs; the government must now turn its attention to raising foreign exchange. Schimmelpfennig told the government frankly that the campaign was burning political capital with donors, all to raise money it could not use in the short term. He encouraged donors to press their concerns about Roghun with the government directly. Apart from Roghun, Tajikistan's economic performance had been better than expected given the financial crisis. The IMF team will bring a recommendation about future assistance to the PRGF to the full IMF Board within the next few months. End summary.

[2](#). (SBU) On February 12, representatives from the International Monetary Fund (IMF) briefed donors on the tentative conclusions of its two-week assessment mission to Tajikistan. The mission's specific task was to measure the government's progress on the 2009 benchmarks set in the Extended Growth Facility (ECF) (previously the Poverty Reduction and Growth Facility). Deputy Division Chief Axel Schimmelpfennig, who led the mission, acknowledged that donors had serious and wide-ranging concerns about the government's campaign to raise funds for the Roghun hydroelectric dam -- including extortion, the anticipated increase in poverty, and the lack of transparency in accounting for the funds (see refs A through C). He said, however, that the IMF had to consider Roghun within IMF's mandate -- i.e., by examining its effects on macroeconomic stability, fiscal operations, and poverty. From this narrower perspective, he

identified several concerns.

IMF PUSHES FOR BETTER MANAGEMENT OF ROGHUN FUNDS

13. (SBU) Schimmelpfennig said the government did not appear to have a clear plan in place to manage and use the funds raised. The government has a "pretty good idea" of the total costs of Roghun, but did not present the IMF with a realistic timeline. The government was officially maintaining that the dam would be built by 2012, but no one with any knowledge about the project believed it would be completed before 2014. The IMF was using the later date for its calculations. Another concern was the management of the funds raised so far. The government has committed to releasing details of the fundraising campaign every ten days. According to the February 11 update, available on the Ministry of Finance website (www.minfin.tj), the government has sold 706,002,413 somoni (\$162 million) in shares in Roghun. (Note: Since shares are sold in 100 somoni increments it is not clear why the total is not a round number. End note.) The money was held in eight banks and the treasury at the Ministry of Finance. Schimmelpfennig said the government had agreed to have an external audit of the Roghun joint stock company for 2008 and 2009. While the audit would not reveal anything about the current fundraising campaign, which began in early January 2010, it was important to provide a baseline for future accounting.

GOVERNMENT RAISES SOMONI BUT MUST SPEND DOLLARS

14. (SBU) The IMF's second major concern about Roghun was the "foreign exchange gap." The government was raising funds in somoni, but the bulk of the expenditures for construction materials will have to be made in foreign currencies. Schimmelpfennig said the government had acknowledged its import needs for Roghun lay between \$500 million and \$800 million (he said it was not clear whether this was for the first phase alone or the entire project). Using somoni to buy large amounts of

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dollars could have profound macroeconomic consequences, including a plunge in the exchange rate and a skewed balance of trade.

EFFECTS OF ROGHUN CAMPAIGN ON POVERTY

15. (SBU) Under the ECF (formerly PRGF), the government of Tajikistan has undertaken to maintain certain social sector spending minimums. Donors expressed concern that the government's policy of forcing doctors, teachers, and other social sector employees to buy shares in Roghun effectively undercut these spending floors. Schimmelpfennig acknowledged the concern, but said it has been difficult to determine the effects of the Roghun campaign on poverty in Tajikistan. He said the World Bank was working on a report on the social impact of Roghun, while the IMF focused on the macroeconomic issues. According to very preliminary calculations, the World Bank estimated the Roghun campaign would increase poverty between 0.5% and 6.0%, probably closer to the lower figure. There were two reasons for the relatively modest effect on poverty. First, if one considered the Roghun payments to be a sort of ad hoc tax, it appeared relatively progressive. According to discussions with government officials and anecdotal information, it seemed the majority of shares have been sold to the better off. Second, the Roghun campaign was a "one-off effect," that should not have a lasting impact on poverty.

16. (SBU) Donors disputed both claims. Numerous attendees related how even the very poorest segment of the population had been forced to contribute. Schimmelpfennig appeared to backtrack somewhat, saying it was true that although the overall share of money collected from the poor was small, the campaign's "marginal effect" on poverty could be significant among this population. He noted that the poverty line in Tajikistan is calculated at 86 somoni (\$20) per capita per month, but the minimum share purchase is pegged at 100 somoni. There were reports that many Tajiks who cannot afford even the minimum 100

somoni payment have been "encouraged" to pool their resources to purchase shares. This raised an additional problem, however, since the share will be issued in only one person's name, so the others will have no equity. (Comment: This assumes the shares have any value at all -- a concern the IMF acknowledged but did not elaborate on. End comment.)

¶7. (SBU) Donors questioned whether the Roghun campaign would truly be a "one-off" event. Certainly the official rhetoric has suggested a more permanent campaign. Further, the very success of the campaign -- the IMF said they never would have expected the government to be able to raise \$160 million in this way -- might tempt the government to employ the same tactics for future fundraising. Schimmelpfennig said the IMF could not base its analysis on hypothetical events, but encouraged the international community to be vigilant and forceful with the government to prevent future occurrences. He said the IMF estimated that the Roghun campaign could slow GDP growth by "up to 1%" in 2010.

ROGHUN COMPLETION DATE: 2012 or 12TH OF NEVER?

¶8. (SBU) World Bank Country Representative Chiara Bronchi reinforced the IMF's assessment that the government was raising funds it could not use. She said the Roghun project did not have the capacity to absorb more than \$40 or \$50 million a year. The only way the government could spend more money would be to bring supplies in by plane, a scenario she did not think possible. If true, and assuming stable exchange rates (an unlikely assumption), the government had already raised enough money to fund Roghun through 2014. Bronchi agreed with the IMF that the government's timeline for completing the first phase of Roghun by 2012 was untenable. Builders still had not repaired the damage to Roghun's massive tunnels from severe landslides in ¶1993. (Roghun was begun in 1976 by the Soviets, but the project was mothballed during the Tajik Civil War in the 1990s.) Despite official announcements that builders had fully excavated the collapsed tunnels late last year, Bronchi said it would be at least another twelve months before this work was done. The World Bank was underwriting two studies on the Roghun project, an environmental and social impact assessment and a technical feasibility study. Bronchi said the long-delayed studies will likely not be completed for another year.

IMF RECOMMENDATIONS FOR GOVERNMENT

¶9. (SBU) In his conversations with government officials,

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Schimmelpfennig said he urged them to declare victory, cease the Roghun fundraising campaign, establish a strong and transparent governance framework for the Roghun funds, and work with the Fund to secure further financing from an international consortium that could raise forex. Schimmelpfennig said this was the IMF's best path for convincing the government to stop the forced contributions. He lightly scolded donors for hoping the IMF would do their dirty work by criticizing the government on issues that lay outside of its mandate. He said donors must take a firm and clear stand with the government about their Roghun concerns. He said he warned officials that the campaign was unnecessarily burning political capital with the international community. He acknowledged, however, that the message was so far falling on deaf ears: the very day he delivered it to President Rahmon, the President issued a renewed appeal to the population for Roghun funds.

¶10. (SBU) The IMF urged the government to establish a mechanism to redeem shares issued in 1994 for the Sangtuda-1 hydroelectric plant, completed just last year with Russian financing. For many Tajiks, the current Roghun campaign is a more aggressive replay of the Sangtuda scheme. Many who were prevailed upon to buy the Sangtuda shares had long ago given up hope of redeeming them. Schimmelpfennig asked donors to underscore this issue as well. It would be an important demonstration of principle for the government.

GOVERNMENT HAS MET MOST IMF OBLIGATIONS...

¶11. (SBU) Schimmelpfennig said Tajikistan's overall macroeconomic performance in 2009 had been satisfactory. (Since Roghun share sales began on January 6, 2010, the fundraising campaign had minimal impact on the 2009 IMF benchmarks.) Tajikistan has weathered the global financial crisis better than expected. GDP grew 3.4%, driven by non-cotton agriculture, which expanded as a result of reforms in the sector. The depreciation of somoni (from about 3.3 to 4.3 to the dollar) contributed, encouraging expenditure on domestic products instead of more expensive imports. According to preliminary data, Tajikistan met all of its quantitative targets under the ECF. Minimum social sector expenditures were met for 2009, and the government agreed to increase social spending by 1% of GDP in 2010. Structural reforms have been slower than anticipated, but not enough to cause concern. Annual audits of the National Bank for fiscal years ending April 2008 and April 2009 have been delayed, but are finally moving forward. These audits must be completed before further funding can be released under the ECF.

...BUT STILL NO AUDITS

¶12. (SBU) Audits of Barqi Tojik and the state-owned Talco aluminum company have been mostly completed, but have not yet been released to the public. These are not formal requirements under the ECF, but the IMF has nevertheless been pressing the government for their release. The Barqi Tojik audit, which was supposed to have been published on the company's website by December, has reportedly been delayed because some financial figures must be recalculated. The fieldwork for the Talco audit has been completed. In addition, the government has agreed to an audit of Talco Management, the offshore entity based in the British Virgin Islands that controls the real profits from Talco, to be tendered by the end of June. The audit would cover 2008 and 2009.

DONORS DISMAYED BY IMF REACTION

¶13. (SBU) At the briefing and afterward, a number of donors expressed their dissatisfaction with an IMF approach they considered too weak. Some were particularly upset by a subsequent press release from the IMF praising government reforms while making scant mention of Roghun's negatives, noting merely that it "...may temporarily dampen growth in 2010 by up to one percentage point, with households reducing consumption and corporates investment in order to purchase Roghun shares." At the same time, the IMF tacitly endorsed Roghun itself by calling it "...an important element of the government's energy strategy." Donors noted as well that the IMF was actually proposing to increase the ECF from its original \$116 million to \$156 million, "in line with the new norms for similar countries." Summing up the feelings of several donors, the head of the Swiss Agency for Development and Cooperation questioned the rationale for continuing to provide multi-million dollars of assistance to Tajikistan when the government has shown it is capable of raising that money on its own -- and, worse, taking

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for granted that foreign donors will step in to alleviate the social sector problems that the government is exacerbating.

NEXT STEPS

¶14. (SBU) The IMF team will present its findings to management in Washington, which will try to work out a package for delivery of the next tranche of \$42 million under the ECF. If things go smoothly, management should take a request for approval to the IMF Executive Board by the end of April. If the Board has not approved the funding by the end of June, the ECF is officially considered off-track.

COMMENT: WHEN TO SAY WHEN?

¶15. (SBU) Donor frustrations with the IMF are understandable: As an IMF insider recently said, the Fund's natural priority is to

try to remain engaged where it is working. On the other hand, Schimmelpfennig was right to be exasperated with those who expected the IMF to carry all of their water on Roghun. Our approach has been, and should continue to be, to pursue this issue along two fronts: by putting pressure on lending institutions such as the IMF and the World Bank to carefully review their programs, but also by raising our concerns that fall outside of these institutions' purview directly with the government (ref D). On the first front, we and several other donors are asking our representatives on the IMF Executive Board to think carefully before approving additional funding under the so-called "Poverty Reduction and Growth Facility" for a government whose policies are in fact increasing poverty and reducing growth. On the second, we are coordinating with other donors to address the broader concerns of coercion and damage to the investment climate (ref E). Should these concerns fall on deaf ears, we may wish to review some bilateral programs. End Comment.
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